

Message Text

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13

ACTION NEA-16

INFO OCT-01 ISO-00 PA-04 PRS-01 USIA-15 DRC-01 FEA-02

AEC-11 AID-20 CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 2943

INFO AMCONSUL BOMBAY

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C O R R E C T E D C O P Y (THROUGHOUT TEXT)

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TAGS: ENRG, IN.

SUBJECT: SHELL AND CALTEX TO BE NATIONALIZED?

REF: A) NEW DELHI 3681; B) BOMBAY 1634 (NOTAL; C) STATE 161942

SUMMARY: JULY 27 ECONOMIC TIMES FRONT PAGE NEWS ITEM SPECULATES THAT "SHELL AND CALTEX MAY BE NATIONALIZED." WHILE THIS LINE IS NOTHING NEW (DEMANDS TO NATIONALIZE THE FOREIGN OIL COMPANIES IN INDIA DATE BACK A DECADE OR SO), THE CURRENT RATIONALE IN PARLIAMENT AND THE PRESS BEARS WATCHING. EARLY PRECIPITATE ACTION BY THE GOI IS NOT ON THE HORIZON, BUT THERE ARE GROWING INDICATIONS THAT THE DETERIORATING FINANCIAL POSITIONS OF BURMAH-SHALL AND CALTEX MAY WELL TRIGGER GOI AND PRIVATE COMPANY POLICY CHANGES LATER THIS YEAR. END SUMMARY.

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1. PETROLEUM MINISTER D.K. BOROOAH REPORTEDLY TOLD AN ECONOMIC

TIMES CORRESPONDENT JULY 27 THAT THE WORLD OIL SCENE HAS BEEN CHANGING SO RAPIDLY THAT "WHAT WAS CONSIDERED TO BE ECONOMIC AT THE TIME OF THE ESSO TAKEOVER HAD CEASED TO BE SO TODAY." IT IS NOW CLAIMED THAT THE GOI WILLINGLY "ALLOWED" ESSO TO RETAIN 26 PERCENT EQUITY AT THE TIME OF THE GOVERNMENT'S RECENT PURCHASE OF ESSO (REF. A) BECAUSE CRUDE OIL OBTAINED THROUGH PRIVATE COMPANY SOURCES (E.G. ESSO, BURMAH-SHELL AND CALTEX) WAS THEN CHEAPER THAN THAT WHICH THE GOI MUST PAY IF THE SAME CRUDE IS PURCHASED ON A GOVERNMENT-TO-GOVERNMENT BASIS (FROM SUCH SOURCES AS IRAQ, IRAN AND SAUDI ARABIA). BOROOAH IS REPORTED TO HAVE IMPLIED THAT POSSIBLY THIS WOULD NO LONGER BE THE CASE IF THE TAX-PAID COST OF CRUDE SUPPLIED TO INTERNATIONAL OIL COMPANIES BY OPEC COUNTRIES SHOULD BE INCREASED SIGNIFICANTLY LATER THIS YEAR (OCTOBER 1974).

2. THE ECONOMIC TIMES ALSO NOTES THAT NEGOTIATIONS FOR THE PURCHASE OF BURMAH-SHELL (AND CALTEX) BY THE GOI "MAY NOT EVEN START." IT IS STATED THAT BURMAH-SHELL WANTS COMPENSATION IN POUNDS STERLING AT THE CURRENTLY-APPRECIATED STERLING-RUPEE PARITY TO PREVENT SEVERE LOSSES. THE GOI REPORTEDLY WILL NOT ACCEPT THIS, BUT THE GOVERNMENT'S COUNTER-PROPOSAL (IF ANY AT THE MOMENT) IS NOT KNOWN. CONCURRENTLY, CALTEX IS "BELIEVED" TO HAVE INFORMED THE GOI THAT IT IS NOT READY TO NEGOTIATE EITHER FOR A MAJORITY PARTICIPATION OR TOTAL TAKEOVER BY THE GOVERNMENT. THIS LEADS THE ECONOMIC TIMES TO CONCLUDE THAT THE ONLY OTHER OPTION LEFT TO THE GOVERNMENT "WOULD OBVIOUSLY BE TO NATIONALIZE THE TWO COMPANIES."

3. DURING JULY 15 CEREMONIES AT FORMER ESSO REFINERY INAUGURATING HINDUSTAN PETROLEUM, BOROOAH WAS QUOTED IN THE BOMBAY PRESS AS SAYING "NEGOTIATIONS FOR THE PURCHASE OF BURMAH-SHELL HAS ALREADY STARTED." ON JULY 17, BURMAH-SHELL CHIEF EXECUTIVE M.S. PATWARDHAN INFORMED BOMBAY AMCONOFF AND EMBASSY MINATT THAT NEGOTIATIONS "HAVE NOT YET BEGUN," AND THAT BOROOAH WAS TECHNICALLY WRONG IN SAYING SO (REF. B). PATWARDHAN EMPHASIZED THAT BURMAH-SHELL NOTIFIED THE GOI THAT IT IS READY TO NEGOTIATE, BUT THAT BURMAH-SHELL WILL NOT TAKE THE INITIATIVE IN THIS MATTER. PATWARDHAN MADE IT ABUNDANTLY CLEAR TO US THAT HIS COMPANY PLANS TO WAIT FOR THE GOI TO MAKE THE FIRST OFFER AND THAT BURMAH-SHELL "WILL DO NOTHING UNTIL THE COMPANY FIRST HEARS FROM DELHI."

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MR. F.H. LEVENHAGEN, CALTEX PRINCIPAL OFFICER IN INDIA, ALSO TOLD AMCONOFF AND MINATT (JULY 17) THAT HIS FIRM IS NOT CURRENTLY NEGOTIATING WITH THE GOI FOR THE SALE OF ITS ASSETS IN INDIA, AND THAT CALTEX DOES NOT INTEND TO DO SO UNLESS OR UNTIL FIRST APPROACHED BY THE GOI IN THIS REGARD.

4. WE ARE NOT AWARE OF SUBSEQUENT DEVELOPMENTS BY EITHER FIRM (OR THE GOI) THAT WOULD HAVE ALTERED THEIR STATED POSITIONS ON

THIS ISSUE. WE THEREFORE SUSPECT THAT THE JULY 27 ECONOMIC TIMES NEWS ITEM MAY MERELY BE THE FORERUNNER OF OTHER PROBING EFFORTS TO FOLLOW DURING THE CURRENT SESSION OF PARLIAMENT. INDEED, QUESTIONS ARE NOW BEING RAISED IN PARLIAMENT WITH OLD FAMILIAR DEMANDS -- "TAKEOVER THE PRIVATE OIL CARTELS;" "ELIMINATE PRIVATE OIL COMPANY EXCESS PROFITS;" "NATIONALIZE." THE PRESS MAY THUS BE EXPECTED TO CONTINUE TO STRESS THAT THE GOVERNMENT IS EITHER (1) DOING SOMETHING OR (2) IS NOT DOING ANYTHING, DEPENDING UPON THE SPECIFIC JOURNALIST'S LEANINGS AT THE MOMENT.

5. MEANWHILE, WE BELIEVE THAT THE TWO REMAINING PRIVATE SECTOR REFINING COMPANIES IN INDIA, BURMAH-SHELL AND CALTEX, DO FINALLY APPEAR TO BE CAUGHT IN POTENTIALLY SERIOUS RUPEE-EARNINGS PROFIT SQUEEZES (THOUGH BOTH HAVE VOICED THESE CRIES FREQUENTLY IN THE PAST ALSO). OF THE TWO, CALTEX IS UNQUESTIONABLY THE MOST VULNERABLE. V.P. RYAN'S STATED POSITION, AS DESCRIBED TO KUX AND MORELY (NEA/INS) IN THE DEPARTMENT JULY 25 (REF. C), AGREES WITH LEVENHAGEN'S VIEWS EXPRESSED TO BOMBAY AMCONOFF AND EMBASSY MINATT JULY 17, AND PRESUMABLY LEVENHAGEN MAY FURTHER DEFINE HIS COMPANY'S FINANCIAL POSITION AND OUTLOOK WHEN HE VISITS WITH US IN THE EMBASSY SOON (REF. C). WE WILL, OF COURSE, BE OF ALL ASSISTANCE POSSIBLE.
MOYNIHAN

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